



Before the
Federal Communications Commission
Washington DC 20554

In the Matter of)
)
Inquiry Concerning the Deployment of)
Advanced Telecommunications)
Capability to All Americans in a Reasonable) GN Docket
No. 07-45
and Timely Fashion, and Possible Steps)
to Accelerate Such Deployment)
Pursuant to Section 706 of the)
Telecommunications Act of 1996)

COMMENT THREE: INCENTIVES AND INVESTMENT
CUSTOMERS FUNDED THE NETWORKS AND ARE STILL PAYING FOR
SERVICES THEY NEVER RECEIVED.
VERIZON, AT&T, QWEST, ET AL ARE CROSS-SUBSIDIZING ALL THEIR
OTHER BUSINESSES HARMING ALL LOCAL PHONE CUSTOMERS.

BY
TELETRUTH AND NEW NETWORKS INSTITUTE

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SUMMARY: Customers have funded and continue to be charged for fiber based services they never received. Worse, the FCC has allowed these companies to 'cross-subsidize' most of their other lines of business, including interstate information products, from DSL and long distance, and even fiber upgrades as well as wireless services.



America paid over \$230 billion for these services – services that were never delivered – Get the money back – over \$2000 per household.

The FCC writes:

“Economics of Network Investment and Service Deployment. In the *Fourth Report*, the Commission concluded that incentives to invest in infrastructure for most high-speed and advanced services markets remained strong, and that the market would continue to expand while availability increases.¹ We seek comment on current investment trends and the extent to which they may reflect the availability of high-speed and advanced services. We seek comment on the relationship between the pace of investment, consumer demand, and general market expectations. We also seek comment on whether providers of high-speed and advanced services have access to sufficient levels of capital to fund infrastructure build-out and whether additional steps should be taken to accelerate deployment”

The FCC has it wrong. The “investment” that is being made is through excess profits from phone rates that were increased due to the commitments made by the phone companies to rewire the various states. This money was in the form of higher phone rates as well as tax perks.

More to the point, the FCC has failed to monitor the actual cost of local service or the extra perks the phone companies receive from being able to ‘cross-subsidize’ their various products and services. The FCC has no clue about how much money is involved, nor has the FCC even investigated this issue, even though we have brought it up since 1998.

The FCC unfortunately, has a problem because phone bill charges, taxes and surcharges are a total mess and under multiple jurisdictions.

However, there are multiple investigations the FCC should undertake to examine how much money customers paid, investments in the name of broadband,. We also need to understand how much is currently being charged through higher rates and tax perks for a) cross-subsidization of the bells other products and b) tax perks and other ‘freebies’ as utilities, even though they are selling an ‘interstate information service without serious obligations.

¹ See *Fourth Report*, 19 FCC Rcd at 20585.



We also note that the FCC's data on phone bill charges has virtually no reflection on what customers are paying, including the taxes and surcharges. In order to find out if the FCC needs to raise the Universal Service Fund to pay for Broadband, or to increase the FCC Line Charge, base lines of data need to be redone.

A simple example. In our recent Data Quality Act (February 2007). The FCC claims that long distance service costs are going down. Chairman Martin, in his testimony to the Senate February 2007 claimed that long distance prices decreased since 2000. He states:

"In 2005, the price of long distance was 2/3 of what it was in 2000."

Here's a chart taken from phone bills which shows that AT&T prices for 'basic rate' services increased since 2000, going from \$.19 to \$.42.

<http://www.newnetworks.com/attvsfccphoneincreases.htm>

About 1/3 of the US was using AT&T or MCI for Long distance before the AT&T-SBC, Verizon-MCI mergers. And we learn that both companies are now on a campaign to harm customers, especially low volume users, because they are currently "harvesting" customers – i.e., raising rates until they discontinue service. The FCC's data is totally biased and has no clue that 1/3 of the US is being hit with major increases.

Here's what we suggest next. This will require for the FCC to actually work with the states to coordinate the information. It's clear that the FCC usually ignores other data sources but the problem is – the funding for broadband is coming from local rates and local customers, not 'interstate' customers alone.

1) Conduct a Phone Bill True-Up.

With all of the documentation we presented pertaining to cross-subsidization, missing equipment, and other serious allegations of cost shifting, it is clear that the entire deregulatory policy followed by the state needs to be reexamined. More importantly, however, is the fact that prices continue to rise even though the costs of service continues to decline.

This is what we wrote in 2001 to the NTIA pertaining to this issue:

<http://newnetworks.com/FINALNTIAfiling.htm>

A) Total Phone Bill Analysis



Today, NO regulator examines the Bell companies for profits. They are now some of the most profitable in America, and these profits are way out of line with anything that could be declared 'fair and reasonable'. In fact, no regulator even examines the Bell Annual Reports and compares it to the state or FCC data, or any other charges. As we discussed, we believe that a great deal of this excess profits was created because the Bell companies lied to regulators and the public about their broadband deployments, as well as cross-subsidizing virtually every other product.

How much does local service actually cost to offer? Why have the costs for service continue to rise in the face of less competition and more importantly a major decrease in the actual cost of providing service.

Therefore, the city should either compel the state to act or start its own investigations into the cost of service within their own community. All profits from the local phone companies garnered from ALL customers. This would include ALL charges, including

- Basic service
- FCC Subscriber Line Charge
- Calling features, including Call Waiting, Call Forwarding, Caller ID
- Inside wire maintenance
- All Bell collected monies under other long distance bills that are also revenue to the local phone monopolies, from Universal Service Charges to all taxes, and surcharges that are revenue or deferred taxes for the Bells.
- Directory Assistance and Directory--yellow page advertisements that appear on phone bills.
- All taxes and surcharges that are revenue to the phone companies or are being paid by customers.
- Cross subsidization in every form, every charge being applied to local service.
- All equipment in the network, including examination of whether the equipment in the records actually exists.
- ALL subsidies, ALL perks, all tax abatements, all use of facilities
- ALL components of local services, from the creation of the customer bill, to the advertising and other perks on the bill, phone bill inserts, all other media advertising,
- ALL phone charges are accurate and paid by the city and government agencies.

B) Audit the FCC Line Charge, Including ALL Costs and ALL Revenues.



The FCC has never accurately assessed the cost of the FCC Line Charge, which is on all local phone bills, even though it allowed for major increases in 2000, from \$3.50 to \$6.50, and is now contemplating to increase it to \$10.00 a month under the Missoula Inter-carrier Compensation Plan. If the data on phone charges is inaccurate, how can the FCC properly assess this increase? It can't and the FCC should go back and examine the first increase as it simply made up the numbers with no audits or serious analysis.

And as we point out in this document, other factors, such as the missing equipment that has been added to rates, should also be factored in, especially since the starting point costs \$3.50 was based on the equipment in the networks.

<http://www.teletruth.org/FCCMissoulaletter.htm>

C) Audit the Universal Service Fund.

The FCC has simply dropped the ball on the all of the various ways the Universal Service has been increasing, even though the costs of offering service continues to drop. The FCC has allowed, for example, high-cost funds to be paid out to wealthy companies even though the companies may not have 'high-costs', especially in states where the phone companies revenues, expenses and profits are no longer examined. The list of problems with the USF is almost endless.

Most important, the FCC is considering raising the Universal Service Fund to pay for broadband. Without actual cost models, the FCC is only guesstimating the increased needs – and this is being done on the backs of phone subscribers, including seniors, low income families, who deserve more than simply guesstimates or paying companies twice for broadband – once in the state law and then again through the USF>

See our report on the USF <http://www.newnetworks.com/usfanalysis.htm>

2) Conduct a Broadband "True-Up"

Teletruth has written about this topic for over a decade. Here's is summary of what we proposed for Pennsylvania, which should happen in every state where a fiber optic plan was proposed and state laws changed to fund these actions.



Require a complete audit of the Bell's books to determine exactly what happened to the monies collected through deregulation. While we have used due diligence in going through the annual reports, these are closer to works of fiction than documents to be relied on for minute analysis.

- How much money was collected because of the changes in regulations, including taxes and tax write-offs and depreciation?
- How many extra charges on phone bills does this equate to?
- How much of this excess profit is being charged through higher rates to competitors trying to offer their own services over the Bell networks?
- How much of this money was spent to roll out DSL products or other services not related to the Bell's fiber-plans, including long distance, wireless and other non-local service products?
- What fiber-optic services are being offered to residential customers--- Was anything wired?

3) DSL and Long Distance Charges Were Added to Local Service Rates.

We can prove that the local phone companies have added (cross-subsidized) much of their own DSL and long distance charges to local rates, even Verizon's FiOS or AT&T's U-Verse. This includes everything from local advertising to corporate expenses, including lobbying, corporate executive pay, and even legal fees have been added to rates.

Local phone service is NOT supposed to fund the other Bell products or services, especially not "interstate" or "information" products, such as long distance and DSL. However, it is clear from the analysis of Teletruth as well as other state-wide audits, such as of California Public Utility Commission conducted of Pacific Bell, that the lines of expenses revenues and profits have harmfully been merged into a blur.

However, there are so many other indications of these cross-subsidies and virtually no audits that we could find that outlines how much money customers paid to the phone companies for new services that should not have been added to rates.

Just a few examples: There are hundreds of cross-subsidization areas:

- **Advertising on a Phone Bill:** In New York, Verizon advertises Verizon's DSL service with MSN --- Did the company pay its fair share to use that space? (Remember, the phone bill printing and mailing is a cost to the customer, any advertising on it would lower the 'cost'.)



- **Transfer of the DSL Business from the Local Phone Company.** In the California audit previously mentioned, SBC was able to put \$195 million dollars in related DSL implementation, sales and marketing into the local phone rate base. In Pennsylvania, Pennsylvania Bell showed a \$60 million dollar transfer of the DSL business to a separate subsidiary. Besides the free advertising and other perks, it is clear that customers funded the DSL deployment in most states.
- **Phone Bill Insert vs Consumer Education:** In New York, Verizon includes monthly a full-color, 4 page phone bill insert that has turned into an advertisement for Verizon services, including DSL, wireless, phones, long distance and packages, as well as its “charitable” activities. The problem is – customers are paying for this insert, which was allowed as a “consumer education” insert. It no longer serves this function and so Verizon’s other products are getting free, valuable advertising. This includes everything from free postage to the use of Verizon lists, avoiding list-rentals.

Other Sources of Cross-Subsidization Problems with DSL and Long Distance.

The National Association of State Utility Consumer Advocates (NASUCA) Claims.

Currently, there are dockets at the FCC that deal with DSL and other product cross-subsidization – i.e., dumping DSL and other expenses into the customer rate base. While it is argued that under ‘price caps’ the company can use whatever bucket they’d like to place their expenses, the truth of the matter is that there are rules for allocation of costs.

The NASUCA press release says it all: “Consumers paying billions due to misallocated telecom costs,” The National Association of State Utility Consumer Advocates NASUCA, Aug. 22, 2006.

“(NASUCA) today told the Federal Communications Commission (FCC) that “seismic changes” in the type of services provided over local telephone lines have resulted in consumers overpaying billions of dollars in their local telephone rates.”

“Telephone companies have invested billions of dollars in their networks to provide unregulated long-distance and high-speed Internet data services. However, based on antiquated FCC



“separations” rules, most of these costs are still allocated to local telephone customers’ bills.

“It is unfair that local telephone customers subsidize huge investments in unregulated technologies that do not assist in their ability to make calls within their community. This is an issue of fundamental fairness,”

A NASUCA commenter made this analysis. (CC Docket No. 80-286, August 22, 2006.)

“The present system is grossly unfair because DSL gets a “free ride” on the common plant. Based on ARMIS Report 43-04, shows that the Bells’ local loop investment of more than one hundred billion dollars supports an increasing percentage of digital subscriber lines. Under the present, flawed system, Bells assign and allocate the vast majority of cable and wire investment to their regulated operations.”

4) Other Audit Areas – Everything from Legal Fees to Executive Compensation.

The most comprehensive audit we could find was conducted by the California Public Utility Commission of Pacific Bell (and SBC, who merged with Pacific Bell in 1997, now all named “AT&T”.) Here is the summary of the “Regulatory Audit of Pacific Bell for the years 1997, 1998, and 1999”, showing that \$1.94 billion dollars was in question. Teletruth believes that every state should be audited for cross-subsidization issues.

“This report documents the results of a regulatory audit of Pacific Bell performed by Overland Consulting. The audit was performed for the Commission under the supervision of the Telecommunications Division (TD). The audit covered calendar years 1997 through 1999 and included reviews of Pacific Bell’s compliance with CPUC accounting requirements, procedures to allocate costs between regulated and non-regulated activities, policies and rules for pricing transactions between Pacific Bell and its affiliated companies and NRF monitoring reports. This audit report focuses on Commission-prescribed regulatory accounting and is not intended to express any opinion on financial statements that Pacific Bell or its parent, SBC



Communications, Inc filed with the Securities and Exchange Commission (SEC) or in annual shareholder reports.

“The audit of financial results identified 67 corrections to Pacific Bell’s regulated operating revenues, expenses and rate base. Audit corrections to bring financial results into compliance with CPUC requirements increased the regulated intrastate net operating income that Pacific Bell reported during the audit period by \$1.94 billion. This translates into recommended customer refunds under NRF earnings sharing rules of \$349 million for the years 1997 and 1998. NRF earnings sharing rules were suspended by the CPUC effective in 1999. Customer refunds for 1999 would have totaled \$457 million if the sharing rules had been effective. Following are additional key findings and conclusions from the audit.”

We need to make clear to any municipality that there are hundred of audit areas impacted.

“We identified and calculated nine **audit** corrections to operating expenses. These include 1) removing \$138 million in local number portability (LNP) costs from intrastate operating expenses that the FCC explicitly ruled should be assigned directly to the interstate jurisdiction; 2) removing \$49 million in local competition implementation costs that should have been deferred and amortized over the period of CPUC-authorized surcharge recovery that began in 2001; 3) reducing operating expense by \$35 million to reflect the allocation of merger savings between ratepayers and shareholders ordered in the CPUC decision that approved the merger of SBC and **Pacific** Telesis; 4) removing \$41 million in cost associated with the shut down of an Advanced Communications Network that was never placed into service; 5) reducing operating expenses by \$44 million to correct **Pacific Bell**’s accounting for a December 1999 software buy-out agreement; 6) removing \$103 million of unsupported and unauditable litigation and regulatory accruals from operating expense; 7) reducing incentive compensation accruals by \$29 million to reflect the actual payout levels for the 1997, 1998 and 1999 performance years; 8) reducing 1997 and 1998 operating expense by \$42 million to remove the cost of settlements paid to contract billing customers for an increase in uncollectible amounts attributable to 1996 operations; and 9) increasing



operating expense by \$19 million to correct the classification of traffic bound for internet service providers for separations purposes. In total these nine corrections reduce **audit** period intrastate regulated operating expense by \$463 million”

In short, everything from DSL and advanced network services, or merger expenses, staffing, and thousands of other items may have been cross-subsidized and added to ratepayer’s phone bills as expenses.

What is truly appalling about these charges is that there are thousands of items that were improperly billed by SBC and Pacific Bell to Pacific Bell residential and business local service customers. The real irony is that legal issues and regulatory Issues that proved to be anti-customer were actually funded by the customers.

The next page is taken directly from the audits conducted in California. It shows that in virtually every category, the company added expenses above the subscribed amount. This includes executive compensation, legal fees, corporate planning and hundreds of other categories.

From the Report:

http://www.cpuc.ca.gov/PUBLISHED/COMMENT_DECISION/29330.htm#P948_207131

(See Appendix B in this white paper for more details.)

- Executive Compensation --- Allocated from SBC Services, Operations, Merger Expenses, acquisitions, etc.

“SBC made award payments to certain of its key executives in connection with SBC's 1998 investment in AMDOCS, a telecommunications software company, and SBC's merger with Ameritech. In turn, SBC allocated a portion of these payments to Pacific using a general allocator under Part 64.”

We note that there are hundreds of examples of Merger related charges being added to the customers’ expenses.

- Legal Expenses --- This can include virtually any topic, even merger expenses, long distance expenses



“SBC improperly allocated to Pacific legal fees associated with SBC's work on 1) Constitutional issues regarding the Telecommunications Act of 1996 (1996 Act), 2) Section 271 long distance service applications pursuant to the 1996 Act, and 3) Pacific's participation in the AT&T/Media One merger proceeding. We agree, and reduce Pacific's expense by \$982,000 for 1998 and \$484,000 for 1999 on a Pacific Bell Total Company basis...”

- Public Relations and Corporate Sponsorship Allocated from Parent to Pacific and Pacific Bell Directory. (I.e., the company sponsors some event then charges the customers, yet takes credit for the event.)

“The public relations and corporate sponsorship expense from Parent Company amounts is \$1.7 million in 1997, \$8.6 million in 1998 and \$8.8 million on an intrastate regulatory after-tax basis as shown in Appendix A.

- Corporate Development --- Developing New Businesses Overseas? Charge It to the Phone Customer.

“Pacific was charged in 1998 and 1999 when an unregulated affiliate, MSI, conducted market research and investigated potential acquisitions throughout the world. Pacific states that the costs were appropriately allocated from the parent to Pacific and Pacific Bell Directory, but does not substantiate this claim.... Thus, we adopt Overland's recommendation of \$3.1 million in 1998 and \$3.5 million in 1999 on an intrastate after-tax basis from the Parent...”

From the point of view of a municipality that is currently paying for services by the incumbent, in most states there has been little oversight as to how the phone bill charges are analyzed and this area is ripe for multiple investigations.

- 6) Audits of the Bell Companies by the FCC Found that Over 20%-35% of the Equipment in the Networks Are Missing and have been Added to Rates. – Finish the Audits and get Refunds Today.

In 1999, the FCC released a series of audits, one for each Bell company, and GTE. The findings were appalling. Over \$18.6 billion dollars of equipment



was unverifiable or missing, and this accounted for only ¼ of the potential audits to be done.

The FCC was compelled by various Bell-funded senators and congressmen to drop the audits and gave the state the authority to continue these audits.

To date, we know of only one state that ever examined this issue in depth. The New York State Public Service Commission found \$633 million in missing equipment. However, the commission never completed the audit, which would have found an estimated \$2.5 billion.

Teletruth has done extensive work on this topic, from filing with the FCC, IRS, SEC and other state government agencies. We even obtained partial copies of the actual documents, showing thousands upon thousands of undocumented equipment.

<http://www.teletruth.org/auditupdate.html>

The California audit also revealed that some equipment that was on the books was missing or unverifiable.

“Pacific's 1999 Computer Inventory Pacific also conducted an inventory of its own computer records in 1999 in anticipation of the transfer of its information technology (IT) department to SBC Services. The inventory resulted in \$98 million in plant retirements for plant that could not be found in the physical inventory. Overland states that, “[t]he failure to record retirements on a timely basis is the most plausible, if unproven, explanation for the missing plant.”

“Once again, the 1999 computer inventory provides evidentiary support for Overland's conclusion that Pacific lacks adequate controls over its plant and property records. While Overland notes that its supposition that Pacific is failing to record property retirements is “unproven,” the audit nonetheless reveals a serious mismatch between the property Pacific reported and the property it actually had in inventory.”

FOIA Denied: In 2003, Teletruth (as well as Associated Press) filed FOIA to see the Bell companies continuing property records and in May 2006, AP's was denied access to the records.

The Associated Press FOIA denied:

http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-07-25A1.txt



As of May, 17th, 2006, Teletruth's FOIA has also been denied and Teletruth is planning an appeal.

6) Other Added Expenses, Other Loss of Revenues, Other Subsidies — From Allowing the Phone Company to Offer Long Distance Directory Assistance Through 411, Free Use of Local Phone Customer Mailing Lists, or Tax Perks.

We are so accustomed to treating the utilities as free market, deregulated-monopolies that most lose site of all of the various perks and subsidies the phone companies have received. If they are free market competitive companies then everything should be up for bid or examined.

Here is a list of just some of the subsidies that should be questioned.

A) The 411 Networks

The Bell companies were given use of the very valuable 411 networks because they also had obligations to deliver directory information. Over 1/3 of the states offered free local directory assistance calls before 1984, and/or the customer received a large number of free calls. For example, in New York City, the customer was given 6 free directory calls with local service, then \$.10 each. If the calls weren't used the customer received a \$.30 credit.

By 2006, almost no states have free calls and the price for local directory assistance in New York (Verizon) went to \$1.25, not counting taxes. This is in spite of the fact that the actual cost is somewhere around \$.15-\$.30 to deliver.

Worse, in virtually every state the phone companies were granted the right to offer long distance directory service as well as local directory service without having to pay for use of the 411 networks – free advertising for a 'supposedly' competitive service, free network use. Had these networks been put up for bid, millions of dollars per state would have been collected to either lower local directory costs, or pay for some other project, like fund 911 services, as Massachusetts used to do because directory was so profitable.

B) Monopoly of the 911 Networks.

The 911 networks are paid in most states by extra charges on the phone bill. While a public interest service, in many states, these networks, which receive millions of dollars a month, are not up for bid.



NOTE: In some states, the money doesn't even go to the phone companies but back to the state government.

C) Pass-through Taxes and Surcharges

In many states, the phone companies don't pay their own assigned taxes and surcharges but are allowed to pass them through to the customer. In a competitive market, many of the taxes would not be allowed to be passed through but would make the company pay their fair share.

This is from an NYNEX bill stuffer, June 1991.

"New York Telephone pays taxes too. The company must pay a New York State Gross Income Earnings tax, which we are permitted to recover as a surcharge to consumers and appears on your bill as a 6.5% New York Surcharge. This surcharge applies to monthly and one time charges and to most calls made within the state".

D) Universal Service Slush funds.

The Universal Service fund has multiple fees combined, from the E-Rate to fund schools and libraries, or the life-line fund. And unfortunately, it has turned into a nationwide slush fund, currently billing all Interstate services at 11.7%.

The list of questions is vast pertaining to an out of control slush fund where many groups are pushing to increase it, instead of investigate and clean it up. Here's some of the data we collected:

<http://www.newnetworks.com/usfanalysis.htm>

- 1) The largest is the High-Cost fund, which goes to fund very wealthy companies who do not have to prove that a high-cost exists or that the money is necessary. In many states, the costs of service have been averaged, while in other states, the phone companies no longer have a 'rate-of-return' that examined profits or expenses, so how can you determine that a high cost exists with no one examine 'cost'.
- 2) Riddled with fraud and unaudited expenses. According to the Center for Public Integrity:

"A Center for Public Integrity investigation reveals the huge program, funded by everyone who pays a phone bill, is in



financial disarray. A new report to Congress on the fund by the FCC Inspector General's office said the program, known as the E-Rate fund, is virtually out of control.

"It's not unfair to say we have found something wrong everywhere we have looked,' said Tom Cline, an auditor in the FCC Inspector General's Office. 'It appears to be both intentional and unintentional.'"

E) State based "High-cost Funds" and Other Perks.

In many states, the subsidies that flow to the phone companies are direct subsidies to the companies. California, for example, has a 'high-cost' fund, where Verizon and AT&T receive about ½ billion dollars in added fees

See: "The Office of Ratepayer Advocates' Review of the California High Cost Fund

B: A \$500 Million Subsidy Program for Telephone Companies", March 22, 2004

<http://www.dra.ca.gov/telco/ora+chcf-b+report+3+22+04+public+version.pdf>.

Also, in most states there is no examination of federal and state charges to see if the payments are excessive.

F) How many times will people be charged to wire schools and libraries in their state?

Here's an excerpt from the Ohio alternative regulation plan, September 20, 1994:ⁱ

"21. INFRASTRUCTURE COMMITMENTS The Company's infrastructure commitment in this Plan shall consist of the commitment to deploy, within five years of the effective date of the Plan and within the Company's existing service territory, broadband two-way fully interactive high quality distance learning capabilities to all state chartered high schools including vocational, technical schools, colleges and universities; deploy broadband facilities to all hospitals, libraries, county jails and state, county and federal court buildings...."



If the state also received a state E-Rate, and the schools and libraries also get assistance from the federal plan, was money also added to rates to do this wiring as well? More to the point, this was for fiber services – Does every school have these services?

G) Rights of Way and Other Perks.

In many states, the Bells are given special privileges; free rights of way and other perks related to deployment. This might have been OK when the companies were simply utilities, but that distinction is now blurred and so the companies should be treated like all other competitors.

The Worcester Telegram writes: “Close this loophole, Telecom exemption an idea whose time is past”, April 10, 2007. The article outlines how a law from the 1920’s exempts over \$2 billion of Verizon’s properties from taxes.

“In the 1920s, a special property tax exemption to spur extension of telephone service throughout Massachusetts made sense. Today, decades after the line-stringing job was completed, it’s an illogical, inequitable loophole that should go the way of silent movies, flappers and bathtub gin.”

“A tax analysis developed by the city of Boston found that about 60 percent of Verizon’s property is exempt, some \$2 billion in assessed value removed from the municipal tax base. The analysis also found Verizon’s total state and local tax bill declined by nearly \$50 million, from \$100.9 million in 2003 to \$54.3 million in 2005.”

And the issue is certainly not mute if your community is planning on deploying services. For example AT&T is requiring that cities get a CLEC status to obtain access to the poles. This from Muniwireless: “AT&T demands cities obtain CLEC status for pole attachments,” April 10, 2007.

“Last month, AT&T notified Decatur, a Wireless Communities Georgia grant winner that the city would: “need to obtain appropriate certification as a Competitive Local Exchange Carrier (“CLEC”) in order to attach to the poles of Bell South Telecommunications, Inc. d/b/a AT&T Georgia in the communications space. In the event the city of Decatur chooses to move forward, we commit to work promptly to negotiate a pole attach license agreement.”



If these companies aren't paying taxes on these properties, if these companies have already written off the poles, or if the poles don't even exist, it is clear that a muni has multiple avenues to correct AT&T's or Verizon's thinking on this topic.

H) Cost of the Poles?

Make no mistake about it, in many states, the majority of poles were already written off. We find that Verizon's second quarter report, 2003 states that the company took a \$3.5 billion dollar deduction for poles and other items. If nothing else, is your community going to be charged for 'used' equipment that may have no value on the books?

"For some assets, such as telephone poles, the removal costs exceeded salvage value. Under the provisions of SFAS No. 143, we are required to exclude costs of removal from our depreciation rates for assets for which the removal costs exceed salvage. Accordingly, in connection with the initial adoption of this standard on January 1, 2003, we have reversed accrued costs of removal in excess of salvage from our accumulated depreciation accounts for these assets. The adjustment was recorded as a cumulative effect of an accounting change, resulting in the recognition of a gain of approximately \$3,499 million (\$2,150 million after-tax, or \$.77 per diluted share)."

7) Who Is Paying for Broadband Deployment, Even if it is an "Interstate Information Service? We Are.

According to SBC, (now AT&T) whatever they build, the money is coming out of the budgets for local phone service.

"SBC now expects that three-year deployment costs for Project Lightspeed will be approximately \$4 billion, at the low end of its previously announced range of \$4 billion to \$6 billion. In addition, there will be customer-activation capital expenditures of approximately \$1 billion spread over 2006 and 2007. *Because a significant portion of capital expenditures for Project Lightspeed will replace and refocus ongoing spending for its current network, SBC expects incremental capital investment for this project to be relatively small.*"



In conclusion: Why does the FCC consider the hostage customers fair game to be billed for services not received, to pay for services not audited, and to raise rates without serious audits and investigations.

The FCC has an obligation to not play fast and loose with customers' costs and customers' rights.

i "Ohio Alternative Regulation Plan," September 20, 1994